HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Thunder Bay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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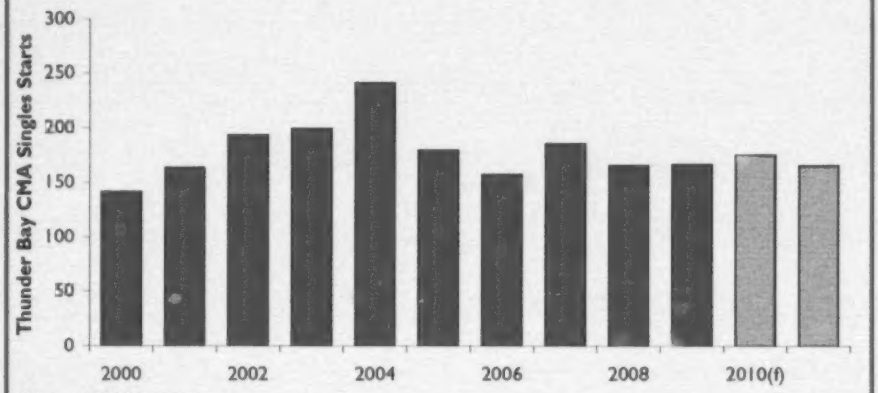
Market at a Glance

- On the strength of first half activity, existing home sales will grow and reach 1,550 units this year. Moderating sales and rising listings will temper the growth in prices.
- Home starts will rise 27 per cent this year only to slow by 10.5 per cent in 2011 as affordability declines. The upturn in the resale market will contribute to an increase in home starts this year as builders see demand returning to the market.
- Modest population growth supported by improved migration, an improving job market and low mortgage rates will provide support for homeownership demand through 2010.

Figure 1

Thunder Bay Single Starts Continue to Improve in 2010



Source: CMHC forecasts

[1] The forecasts included in this document are based on information available as of April 23, 2010.

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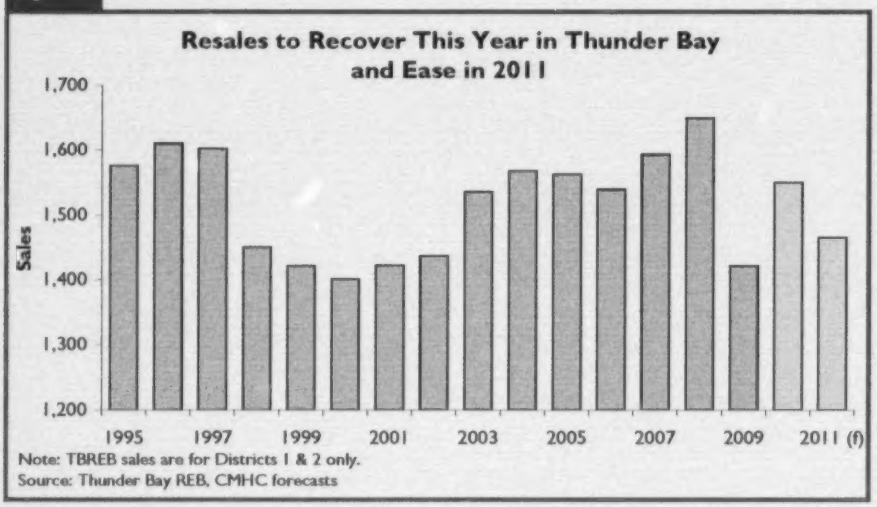
Figure 2



Note: TBREB sales are for Districts 1 & 2 only.
Source: Thunder Bay REB, CMHC forecasts

Resale Market

Resale Market Recovering

Sales are up 32 per cent compared to the same period in 2009 but will slow in the second half of 2010, ending the year up only nine per cent. Actual incomes will not keep up with the level of income required to purchase a home, causing affordability to decline. Consequently, sales will weaken by 2011. However, the warm spring weather and renewed optimism encouraged buoyant resale market activity so far this year in Thunder Bay. Many factors have combined to bring sales forward this year but none greater than the possibility of rising interest rates. As well, this increasing demand for housing will take place despite employment remaining virtually flat.

New home listings are not expected to improve dramatically through 2010 and next year as conditions will remain tight. Mobility among the aging baby boom population in Thunder Bay is low as households typically age in place. Accordingly, mature markets, such as Thunder Bay, tend to experience listings shortage.

Hence, sales will continue to exceed list prices, which will result in prices continuing to be bid up. However, as sales ease more than listings, balanced market conditions will prevail. Therefore, the 14 per cent average price rise in the first three months will give way to more modest gains for the remainder of the year. Average prices will continue its upward trend on strengthening demand and weak supply. By the end of next year, price growth will soften but will still be higher than 2010.

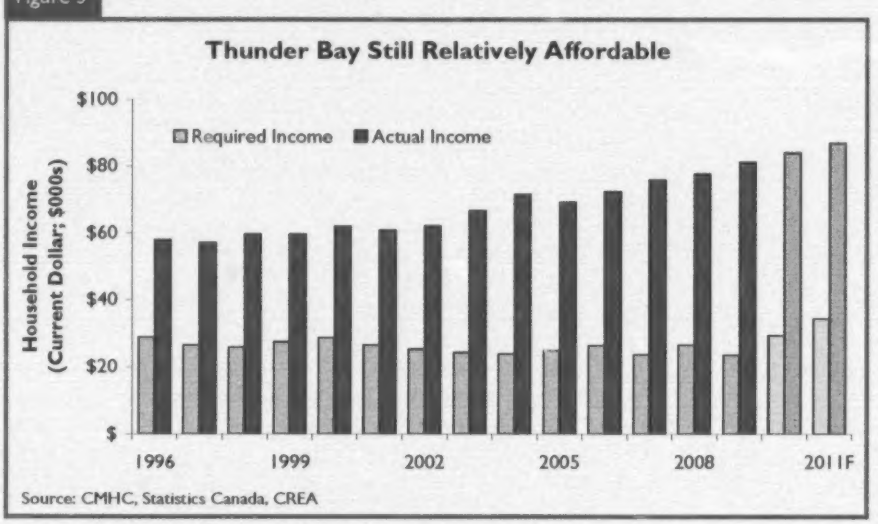
New Home Market

Singles Still Dominate

Traditionally, new residential construction in Thunder Bay is that of single-detached housing and looking ahead, this year will be no different. A very flat trend in new singles construction persists in Thunder Bay. Thunder Bay single-detached starts edged up in 2009 from 2008. In 2010, CMHC expects starts to raise to 175 units before settling back in 2011. Affordability in the region permits potential homeowners access to more spacious homes. Multi-family home construction, which includes semi-detached, townhomes and condominiums, will be quiet as is often the case in Northern Ontario.

Besides buoyant resale markets, the new home market in Thunder Bay has been bolstered by some attractive lots that were released

Figure 3



Source: CMHC, Statistics Canada, CREA

in the second half of 2009 and into the spring of 2010. Developers have readied themselves and are now poised to take advantage of some pent-up demand in the market. In smaller markets, like Thunder Bay, accumulation of inventories is not an issue. Completed and unabsorbed singles are at a level consistent with the ten-year average.

More construction of single-detached housing, particularly at the higher end, may also be motivated by the upcoming introduction of the HST in mid 2010. Some buyers may have wanted to get a step ahead of the imminent tax and brought their decision to buy forward into the latter part of 2009 to ensure a closing before July 2010. Although average prices for new construction in Thunder Bay will be under the minimum threshold where the HST would apply, this tax also impacts lawyer's fees and other services.

Demand from first time homebuyers typically gravitates to more inexpensive housing or higher density dwellings. A further 54 row and apartment starts will commence in 2010 and another 40 in 2011 are expected in Thunder Bay. The majority of these units will be condominium apartments as the market faces low market rent levels and higher construction costs.

After rising a slight 0.8 per cent in 2009, the New Home Price Index for Sudbury-Thunder Bay will rise 2.5 per cent in 2010 and a further 3 per cent in 2011. A combination of stronger demand, higher construction costs and higher resale prices supports higher new home prices.

Economy

Evidence of Economic Transition Mounts

Thunder Bay employment fell five per cent in 2009 but it is expected to remain stable for the rest of this year. CMHC is forecasting employment to rise 1.3 per cent in 2010 and by a similar amount in 2011.

Employment in the services sector has become the mainstay in the local economy given softness in the forest products sector in recent years. The expansion of health, education and government services is an important aspect that is currently occurring and will continue as Thunder Bay's economy continues to diversify.

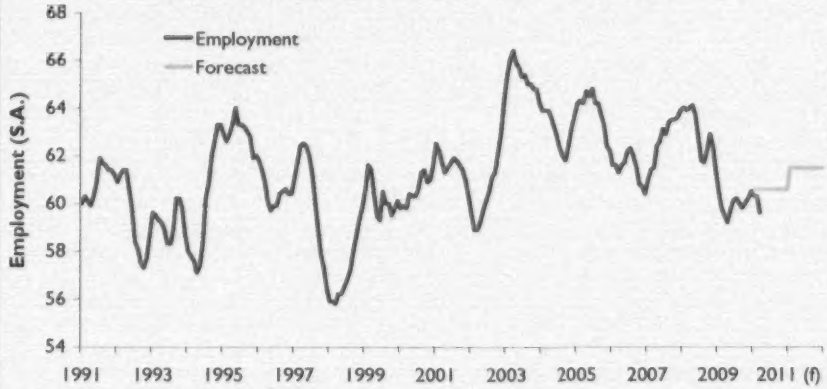
The improved employment picture should moderate the unemployment rate this year and next contributing further to consumer spending and boosting opportunities in the services sector. The fact that incomes have grown despite the goods producing sector weakness in the past year, illustrates how service sector jobs must contain a sizeable percentage of above-average incomes which helps stabilize the rate of income growth. This will help income growth moving forward, closing the year up 3.5 per cent.

Significant recovery in traditional areas is helping to create optimism in the community. The forest products sector is starting to show some signs of revitalization as the global economy begins to show modest improvements. China has increased its share of forest product imports in recent years and should continue to offer ongoing support to this industry.

Pulp is also seeing marked developments which bode well for certain Northwestern Ontario mill operations in Thunder Bay. Meanwhile, solid employment at Bombardier's rail car manufacturing facility has also been integral to the pick up being witnessed. On the mining front, with gold prices over $1,000 an ounce and

Figure 4

Jobs Growth to Pick Up in Thunder Bay



to March 2009, Forecast 2010 and 2011.
Source: Statistics Canada *Labour Force Survey*, CMHC forecasts

other metals and minerals prices also showing strength, mining exploration in the area will continue.

The highest number of consumer bankruptcies since 1987 was recorded in Thunder Bay in 2009. They were more than double what they were in 2002, which was at the time, the highest since 1987. As the services sector keeps strengthening in the region along with the knowledge base industry, expect this bankruptcy trend to moderate.

Migration

Population in the Thunder Bay CMA will remain stable this year and will grow moderately next year. Higher income growth coupled with recovering employment market, particularly in the services sector, will retain people in the region and will attract more migration. The house price differential in Thunder Bay will be one important factor attracting people.

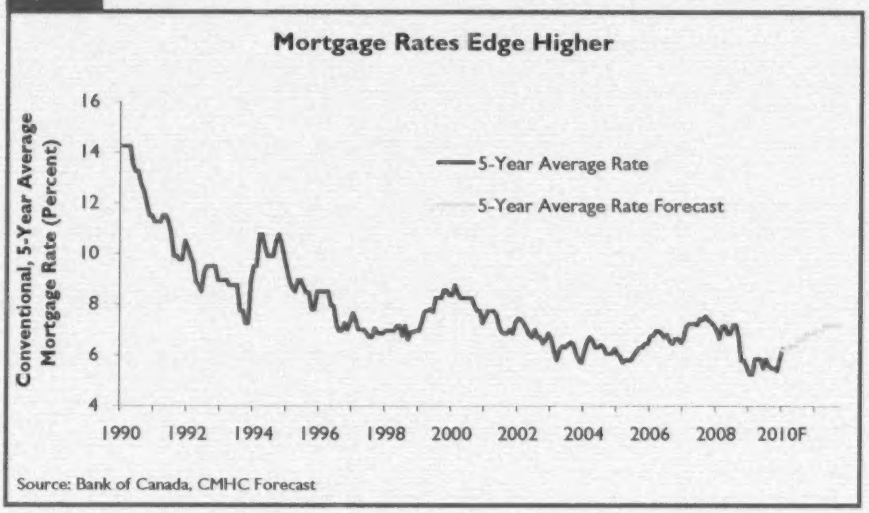
Mortgage Rate Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Figure 5



Source: Bank of Canada, CMHC Forecast

Forecast Summary Thunder Bay CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	1,593	1,649	1,423	1,550	8.9	1,465	-5.5
MLS® New Listings	2,631	2,839	3,193	3,129	-2.0	3,160	1.0
MLS® Average Price ($)	129,734	139,301	145,074	153,800	6.0	160,000	4.0
New Home Market							
Starts:							
Single-Detached	185	165	166	175	5.4	165	-5.7
Multiples	64	2	14	54	**	40	-25.9
Semi-Detached	8	2	6	10	66.7	10	0.0
Row/Townhouse	24	0	4	0	n/a	0	n/a
Apartments	32	0	4	44	n/a	30	-31.8
Starts - Total	249	167	180	229	27.2	205	-10.5
Average Price ($):							
Single-Detached	239,933	244,158	270,513	280,000	3.5	293,000	4.6
Median Price ($):							
Single-Detached	230,000	245,000	274,900	280,000	1.9	288,000	2.9
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	4.3	5.5	0.7	2.5	-	3.0	-
Rental Market							
October Vacancy Rate (%)	3.8	2.2	2.3	2.6	0.3	2.6	0.0
Two-bedroom Average Rent (October) ($)	696	709	742	760	2.4	780	2.6
Economic Overview							
Mortgage Rate (1 year) (%)	6.30	6.90	4.02	4.23	0.21	5.56	1.34
Mortgage Rate (5 year) (%)	6.70	7.10	5.63	6.20	0.57	7.06	0.86
Annual Employment Level	63,000	63,000	59,800	60,600	1.3	61,500	1.5
Employment Growth (%)	2.3	0.0	-5.0		1.3		1.5
Unemployment rate (%)	6.7	5.8	8.4	8.0	-	7.7	-
Net Migration [1]	-411	-18	-100	100	-	150	50.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2009 migration numbers are forecasts

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